

Section 4

Administration of Internal School Funds

Section 4: Administration of Internal School Funds

Title 1, Internal School Funds

Internal school accounting requires the establishment of funds to account for specific activities of a school's operation. The differences between internal school fund accounting and generally accepted accounting principles are described in the accounting and reporting section of the Manual.

Generally, each school has only three fund types: (1) general fund, (2) restricted fund, and (3) food service fund.

General Fund

The general fund is used to account for all money to be used for the general operation of the school or for the welfare of the student body. This includes, but is not limited to, allocations, locker fees, parking fees, library fines, rental income, unallocated interest income, school-wide fundraisers, and donations without stipulations.

All expenditures from the general fund must benefit the school or must contribute to the welfare of the student body and supplement, and not replace, funds necessary to fulfill the local board's obligation to provide an instructional program, property, equipment, and salaries. Expenditures meeting these criteria are restricted in purpose only as directed by the board of education, general laws and regulations, and school policies.

The general fund consists of separate revenue accounts and expenditure accounts. Total general fund expenditures (including unpaid obligations as of June 30 each year) must not exceed the beginning fund balance plus current year revenue. A deficit balance in the general fund (representing the net total of all account balances in the general fund) is not allowable.

The principal is considered to be the sponsor of the general fund.

Restricted Fund

The restricted fund is used to account for all money which is restricted for the use of a specific group (club, class, etc.) or legally restricted for a specific purpose (BEP funds, scholarship donations, etc.). The restricted fund may also be used for grants, donations, and awards in which the intended purpose does not fall under the scope of the General Fund (Governor's Award, performance incentive money, certain corporate donations, etc.).

All expenditures of restricted fund account money must be for the purpose or group for which the money was raised.

The restricted fund consists of accounts which include both revenues and expenditures, and each account maintains its own identity. Expenditures in each restricted fund account must not exceed the beginning balance plus current year revenue. A deficit balance in a restricted fund account is not allowable.

The principal may be the sponsor of some restricted fund accounts such as legally restricted scholarships, grants and donations. The principal generally designates other individuals as sponsors of club, class and other restricted fund accounts.

Food Service Fund

Each school that receives state and/or federal food service money for the purpose of financing food service operations must establish a separate fund entitled "Food Service Fund." This fund must be used to account for such money in accordance with state and federal rules and regulations governing food service programs. The food service fund is discussed in Section 8.

In most instances, the cafeteria manager is considered the sponsor of the food service fund.

Accounting for Athletics

Although athletic programs may benefit the welfare of the student body, money raised from sanctioned athletic programs is generally restricted for the use of the athletic program. In addition, parents and other individuals generally demand a separate accounting of money raised by school athletics. Therefore, a sanctioned athletic program must be accounted for in the restricted fund. The board of education must determine which of the following alternatives for athletic accounting will be used by each school.

Alternative 1

Establish one primary athletic account. Subsidiary or sub-accounts may be established to account for revenues and expenditures in individual sports (e.g., football, basketball, baseball, softball, soccer, etc.). If such subsidiary accounts are established, one or more of the subsidiary accounts may incur a deficit balance provided that the primary account for athletics (net total of all athletic subsidiary accounts) does not have a deficit balance. Only the primary account should be reported in the audited financial statements. The principal is considered to be the sponsor of the primary athletic account.

Alternative 2

Establish a separate account for each individual sport. No individual sport may incur a deficit account balance. The activity for each separate account must be reported in the audited financial statements. The principal generally designates the coach or other individual as the sponsor.

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Title 2, Internal Control

Objectives of Internal Control Systems

The objectives of internal control systems used in administering activity/food service funds are to provide management with reasonable, but not absolute, assurance that (1) student activity/food service money is spent and related inventory is used in accordance with laws, regulations, and policies; (2) student activity/food service money and related inventories are safeguarded against waste, loss and misuse; and (3) reliable information is obtained, maintained, and fairly presented and disclosed in reports.

Accounting control is concerned with the plan of organization and the procedures and records that relate to the safeguarding of student activity/food service money and related inventory, and the reliability of financial records. Controls should provide reasonable assurance that:

1. transactions are authorized;
2. transactions are recorded: (a) to permit preparation of financial statements in accordance with the Manual, and (b) to maintain accountability for assets;
3. access to student activity or food service money and related inventory is authorized; and
4. assets recorded in the accounting records are compared with the existing assets periodically, and appropriate action is taken with respect to any differences.

Accounting controls may be classified into transaction cycles. Basic transaction cycles include the revenue/collection cycle, expenditure/disbursement cycle, fixed asset cycle, inventory cycle, and the reporting cycle. The expenditure/disbursement cycle includes the payroll and purchasing cycles, which are presented separately in the following discussion.

In layman's terms, internal controls are procedures which will help:

1. limit the opportunity for theft or unauthorized use of the school's money or related inventories;
2. ensure that school money is collected and spent in accordance with laws, regulations and policies;
3. detect errors or fraud timely;

4. provide correct financial information;
5. provide individuals who handle money with documentation that they properly accounted for all school money they handled; and
6. ensure that amounts of money and inventory reported to the public agrees with actual amounts of money and inventory in the school or in school bank accounts.

The following “minimum recommended internal control” procedures, in conjunction with detailed procedures set forth throughout the Manual, represent the minimum procedures that meet the internal control objectives. Applicable procedures are required unless the school develops alternative procedures which provide the same or better controls. In some circumstances, it might be necessary to implement additional internal control procedures to supplement those presented below.

Revenue/Collection Cycle

Internal Control Objectives

1. All collections are received at the proper time.
2. The correct amount of money is received.
3. All collections are promptly deposited intact and recorded in the accounting records.
4. All collections are properly allocated to the appropriate fund and accounts.

Potential Errors Due to the Lack of Internal Control

1. Amounts due under profit sharing arrangements are calculated incorrectly.
2. Amounts received from profit-sharing arrangements are incorrect.
3. Amounts received are diverted for personal use.
4. Amounts received and/or sources of collections are incorrectly recorded.
5. Collections are not deposited into the school’s bank account.
6. Bank deposits are not made intact within three banking days.
7. Collections and deposits are not recorded promptly.

8. Collections are allocated to the wrong fund or account.
9. Amounts allocated to specific accounts are incorrect.
10. Collections are not received at the proper time.

Minimum Recommended Internal Controls

1. Accounting or bookkeeping staff should be competent and well trained in basic bookkeeping skills.
2. The school should establish and document detailed requirements for collections, including the assignment of related responsibility, timing of collection, and follow-up on uncollected accounts.
3. The principal or designee should recalculate collection amounts (e.g., fundraiser summary, ticket reconciliation, etc.) on a sample basis.
4. All checks received by the school should be immediately endorsed with a restrictive endorsement, such as **“For Deposit Only-Volunteer High School.”**
5. At the time of collection, individuals collecting money should prepare prenumbered receipts, collection logs, or other appropriate documentation.
6. Cash registers should be used wherever possible, such as in cafeterias and in bookstores, and cash register tapes should be retained and reconciled daily with collections.
7. All revenue/receipts should be accurately and promptly recorded in the school’s accounting records.
8. To the extent possible, the following duties should not be performed by the same individual: receiving cash, making bank deposits, maintaining the accounting records and reconciling bank accounts.
9. A person who is independent of the receiving, depositing and recording functions should compare bank deposits with the prenumbered receipts, collections logs, ticket reconciliation, cash register tapes, etc.
10. Bank reconciliations should be prepared and reviewed at least monthly by someone who is independent of the receiving and recording functions.
11. Individuals who have responsibility for, or access to, cash, property or other assets of internal school funds should be bonded with fidelity insurance coverage.

Purchasing/Disbursement Cycle

Internal Control Objectives

1. Purchases are properly authorized and do not exceed fund or account balances.
2. Goods and services ordered are for an appropriate school purpose.
3. Goods and services ordered are actually received, and all goods and services received were ordered.
4. Invoices for goods and services are correct.
5. Purchase amounts are recorded in the proper funds, accounts and fiscal year.
6. Disbursements for purchases are supported by adequate documentation.
7. Checks are written on a timely basis for the correct amount and made payable to the proper payee.
8. Documentation supporting disbursements is canceled in a manner which will prevent duplicate payment.

Potential Errors Due to the Lack of Internal Control

1. Goods or services are ordered that are not for an appropriate school purpose.
2. Goods are ordered in excessive quantities or unnecessary services are requested.
3. Goods or services are ordered but not received or rendered, or goods or services are received or rendered, but not ordered or requested.
4. Purchases are recorded but goods or services are not received or rendered.
5. Sales tax is inappropriately paid or not paid when applicable.
6. Invoices do not match goods and services received or rendered.
7. Invoices have incorrect prices and/or math extensions.
8. Invoice amounts are incorrectly recorded.
9. Purchases are allocated to or recorded in the wrong fund or account.
10. Payments are made for the wrong amount and/or to the wrong vendor.
11. Invoices are paid more than once.

12. Disbursements are not recorded in the accounting records.
13. Purchases are recorded in the wrong fiscal year.
14. Payments are made without adequate documentation.
15. Purchases are not authorized.
16. Purchases are made which create deficit account balances.

Minimum Recommended Internal Controls:

1. The availability of money for the fund/account in question should be determined before requisitions are approved.
2. All requisitions should be properly approved prior to the purchase.
3. Prenumbered purchase orders should be used, and access to blank forms should be controlled by the principal or designee.
4. Competitive bids or quotes should be required for purchases that exceed the school system's bid limits established by the board of education or applicable state statute.
5. Merchandise received should be opened immediately, physically inspected and counted, and documented on a receiving report to verify that goods were actually received in good condition and in the quantities ordered. Likewise, services performed should be approved and accepted and documented on the invoice to verify the service was performed as requested.
6. Invoice prices should be compared to prices shown on purchase authorizations, and invoices should be checked for mathematical accuracy.
7. Invoices should be compared to purchase authorizations and matched with receiving reports before payment is approved.
8. When payment is made, the invoice (or other supporting documentation) along with the purchase authorization should be canceled to prevent duplicate payment. The paid check number and account distribution number or code should be stamped or written on the invoice or other supporting documentation.
9. Unpaid invoices (or other supporting documentation) for goods or services received should be reviewed at least monthly and approved as required.
10. Access to blank checks and signature stamps, if used, should be restricted to avoid unauthorized use.

11. All disbursements/expenditures should be accurately and promptly recorded in the school's accounting records.
12. To the extent possible, the following duties should not be performed by the same person: approving requisitions; preparing purchase authorizations; receiving goods or services; approving payment; preparing checks; signing checks; and preparing bank reconciliations.
13. Bank reconciliations should be performed on a timely basis. If the person preparing the bank reconciliation performs other cash functions, the reconciliation must be reviewed by someone who is independent of those functions.

Payroll Cycle (for noncentralized food service funds only)

Internal Control Objectives

1. Payroll expenditures are within the budget authorization.
2. Employees are paid the correct amount for work performed.
3. Employee withholdings, deductions and net pay are computed correctly.
4. Payroll-related liabilities are accrued and properly documented.
5. Payroll costs are allocated to the correct fund and account.
6. Payroll expenditures are recorded correctly.

Potential Errors Due to the Lack of Internal Control

1. An excessive number of persons are hired.
2. Duplicate payments are made.
3. Employee time sheets are not accurate or are not maintained.
4. Employees are paid for work not performed.
5. Payroll expenditures exceed the budget authorization.
6. Employees are over/underpaid; deductions are incorrect.
7. Paychecks are not received by the correct employees.
8. Paychecks are issued for fictitious employees.
9. Vacation and sick leave records are not accurate or are not current.
10. Payroll amounts are recorded incorrectly.

11. Payroll is recorded in the wrong fund or account.

12. Payroll is recorded for the wrong payroll period.

Minimum Recommended Internal Controls

1. Cumulative payroll costs are compared to the budget authorization, if applicable, prior to disbursement.
2. Payroll computation for new employees and changes in deductions for existing employees are calculated by one person and reviewed by a different person, whenever possible.
3. Personnel files include current documentation of employees' authorized pay rates and for all payroll deductions.
4. Attendance records, time sheets, or time cards are signed by the employee, approved by a designated person, and submitted to the payroll clerk where the records are used to compute payroll.
5. Payroll checks are distributed by an employee who is independent of the payroll function.
6. The person who distributes payroll checks should require identification from any employee not personally known by him or her.
7. Employee vacation and sick leave records are current and are reviewed periodically by both the supervisor and the employee.
8. Payroll disbursements are promptly and accurately recorded in the proper fund.

Fixed Asset Cycle

Although fixed assets are not required to be recorded in the financial statements of internal school funds, the school's property records provide the basis for recording fixed assets in the financial statements of the county, municipality or special school district. Therefore, this cycle addresses not only controls related to the safekeeping of fixed assets, but also controls over the recording of such assets.

Internal Control Objectives

1. Assets purchased are properly authorized and are beneficial to the school.
2. All fixed assets are correctly recorded in the school's records and are physically on hand.

3. School records correctly reflect the sale, theft, abandonment or damage of fixed assets; and all obsolete fixed assets have been noted and reported to the board of education.
4. Restrictions on the use or disposition of property and equipment are complied with.
5. Donated fixed assets are valued and recorded correctly.
6. All fixed assets are identified in such a way as to identify them as school or board of education property.

Potential Errors Due to the Lack of Internal Control

1. The cost of fixed assets is recorded incorrectly.
2. Fixed assets are purchased that do not benefit the school.
3. Fixed assets no longer in use have not been removed from the books.
4. The school's fixed assets are used for personal benefit or other unallowable purposes.
5. Donated assets are not recorded or are recorded incorrectly.

Minimum Recommended Internal Controls

1. Formal approval of the director of schools should be required for all fixed asset purchases; and items costing in excess of a specified amount should be approved by the board of education.
2. Detailed property and equipment records should be maintained that include asset description, date purchased or received by donation, cost or fair value at donation, location, etc.
3. Applicable laws and school policies should be followed when disposing of fixed assets.
4. Designated individuals are responsible for assuring compliance with the terms of restricted donations or property purchased with grants.
5. At least annually, a physical inspection and count of fixed assets should be performed and compared with the school's records.
 - a. Reconciliations should be prepared and discrepancies should be immediately followed up and explained.
 - b. Reconciliations are reviewed by a responsible individual.

6. Equipment and other applicable property should be properly identified by numbered metal tags or other means of identification.
7. Items should be kept secure and safeguarded from loss due to fire, theft or misplacement.

Inventory Cycle

Internal Control Objectives

1. Inventory recorded represents a complete listing of materials, supplies and items held for use in operations or for sale that are owned by the school, including donated materials, and such assets are physically on hand at the balance sheet date.
2. Inventory listings are accurately priced, extended, footed, and summarized, and the totals are properly recorded in the accounts.
3. Inventory is valued correctly.
4. Excess, obsolete, and defective recorded inventory is reduced to net realizable value in the accounting records.
5. Inventory is properly classified on the balance sheet, and disclosure is made of restricted, pledged, or assigned inventory and the methods used to value inventory.
6. Inventory is safeguarded from theft and loss.

Potential Errors Due to the Lack of Internal Control

1. Inventory recorded is incomplete.
2. Prices on inventory lists are not accurate and/or extended, and the footed amounts and totals do not agree with amounts recorded in the school's records.
3. Inventory is not valued correctly.
4. Obsolete inventory is not removed from the books.
5. Inventory is not safeguarded or insured.

Minimum Recommended Internal Controls

1. All inventory should be accurately and promptly recorded in the school's accounting records.
2. Inventories should be adequately safeguarded against loss, theft, physical deterioration, or misuse by being kept in locked enclosures, access to which is granted only to authorized personnel.
3. Responsibility for establishing and monitoring inventory levels should be fixed by assigning custody of inventories to specific individuals.

4. The individual responsible for receipt, storage, and issuance of goods should be independent of responsibility for purchases, sales and inventory records.
5. Personnel should be required to report obsolete, unusable and overstocked items, and approval should be required and obtained before disposing of such inventories.
6. Periodic physical inspections and counts should be performed and balanced to the school's records.
7. Inventories should be covered by insurance.
8. Inventories should be appropriately valued based on the cost flow assumption selected.

Reporting Cycle

Internal Control Objectives

1. The statements are prepared in accordance with an "other comprehensive basis of accounting" as shown in the accounting and reporting section of this manual.
2. Transactions are properly classified and summarized by account activity and balances are properly stated.
3. Financial statements are prepared on a basis consistent with that of the previous year. Notes to financial statements call attention to any differences between the school's financial statement presentation and generally accepted accounting principles.
4. Financial statements and accompanying notes provide adequate informative disclosures.
5. Adequate procedures exist to provide a clear cutoff of transactions at year end.
6. Adequate control is exercised over the preparation of financial statements.
7. Adjusting entries are properly approved and posted to the school's books and records.

Potential Errors Due to the Lack of Internal Control

The types of errors that could occur are almost unlimited. The reporting of financial information involves nonroutine activities that are best controlled by more general management controls.

Minimum Recommended Internal Controls

1. Management should be kept informed of changes in the Manual.
2. Compilations should be checked by a person other than the bookkeeper and reviewed by the principal or designee.
3. The Manual should be complied with and additional required procedures and policies should be documented.
4. Records are sufficiently safeguarded.
5. Nonpermanent (pencil) entries and liquid paper (white-out) in accounting records are prohibited.

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Title 3, Insurance/Bonding of Employees

Employees of the local board who handle money and accounting records of individual schools must be bonded in accordance with 49-2-110, *TCA*. A blanket corporate fidelity (or dishonesty) bond covering all applicable employees must be provided by the local board. Personal or signed fidelity (or dishonesty) bonds are not acceptable. The board of education shall determine the amount of the bond, giving consideration to the total amount of money and/or property that is handled in each school.

The board of education should determine and provide the type and amount of insurance coverage necessary to indemnify the school and board of education for loss of school cash, equipment, files and records, etc., due to theft, vandalism, fire, or other perils.

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Title 4, Safekeeping of Cash

Student activity and other internal school fund money must be deposited intact (in the form and amount in which collected) in banks within three banking days after the money is received. When possible, school money should be deposited daily. A night deposit should be used as necessary to comply with these provisions.

School money should **never** be taken home by individuals for safekeeping or left at a school overnight unless it is stored in a school safe or vault. When a safe or vault is used for money and records, the following procedures should be followed:

1. The combination to the safe or vault should be changed whenever there is a change in personnel who had access to the vault.
2. The combination should be changed at least once every two years or more frequently as deemed necessary.
3. The combination should not be accessible to unauthorized persons.
4. A copy of all current combinations should be filed in the director of school's office in a secure location.

Each principal must know the amount of insurance coverage for the school to ensure the amount of money left overnight in the building does not exceed the insured amount. In the event the school incurs a loss in cash or property, the principal must communicate the loss immediately to the appropriate law enforcement officials and director of schools to allow the board of education to report the loss to appropriate insurance companies in a timely manner.

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Title 5, Property Acquisition and Management

Definition

For the purpose of administering student activity funds, “property” includes all items necessary for the education of the students and for administration and operation of the school. This definition includes, but is not limited to, such items as:

Fixed Assets and Sensitive Minor Equipment

1. Construction of or additions to facilities, including betterments, improvements or repairs, and maintenance;
2. Equipment (such as copiers, computers, playground items, etc.); and
3. Sensitive minor equipment such as cameras, calculators, VCR's, etc.

Inventory

1. Workbooks and other instructional supplies;
2. Office and classroom supplies such as paper goods, rubber bands, etc.; and
3. Resale products.

This section addresses property purchased with internal school money or donated to internal school funds. The board should establish policies regarding records which must be maintained for other property purchased by the board of education which is under the supervision of the individual principals.

Property Acquisition

General Fund

As noted previously, student activity funds should be used to supplement and not replace money necessary to fulfill the local board's obligation to provide an instructional program, property, equipment, and staff development. Therefore, the purchase of property from the general fund is limited only in that all expenditures from the general fund must supplement, not replace, the board's required contributions.

Restricted Fund

Restricted fund money may be used to purchase property, as defined above, in accordance with the procedures prescribed in the Manual.

Property Management

It is essential to account for property (whether donated or purchased with individual school money) and to establish and maintain adequate internal controls for such property, including the following:

Fixed Assets and Sensitive Minor Equipment

1. Establish and maintain records on a current basis. Identify items and record information that includes:
 - a. Item description
 - b. Location
 - c. Manufacturer
 - d. Model number
 - e. Serial number
 - f. Date received
 - g. Vendor name or donor
 - h. Purchase price or appraised value
 - i. Responsible individual
 - j. Date of inventories
 - k. Disposition

2. Submit detailed lists (suitable for insurance purposes) at least annually to the director of schools or the board of education.
3. Designate an individual to be responsible for specific items. Removal of any items from the school's premises should be approved in advance in writing by this individual. All such removals should be for official use only.
4. Mark each piece of equipment for school ownership identification by using a method which is as permanent as possible, preferably prenumbered property tags or bar code tags.
5. Conduct physical counts periodically, compare results with property records, and investigate differences noted.
6. Record purchases, donations, and disposals as they occur.

Inventory

1. Establish and maintain inventory records which detail inventory items both in dollars and in quantities.
2. Conduct physical counts periodically. If a perpetual system is used, compare results with inventory records, and investigate differences noted.
3. Designate persons to be responsible for specific inventory items (safekeeping, distribution, etc.).

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Title 6, Retention and Disposal of Records

Retention of Records

Custodian of Records

All student activity and other internal school fund accounting records are the property of the board of education and must be preserved in the applicable individual school, except as expressly authorized by the board.

Payroll Records

Payroll records (including, but not limited to, personnel files, time cards/reports, and employee vacation and sick leave records) shall be retained for 45 years or until the applicable employee retires, whichever is later.

Accounting Records, Supporting Documents and Other Records

The following original records (including data in the form of computer printouts) should be retained for a minimum of 5 years or until all applicable audit exceptions are resolved, whichever is later:

1. Prenumbered cash receipts
2. Collection logs, ticket reconciliations, signed recorded counts, remittance advices, and other collection documentation
3. Ledgers
4. Journals
5. Audit reports
6. Fixed asset and inventory records (retain five (5) years after disposal of property)
7. Purchase orders
8. Vendor invoices
9. Fire prevention reports
10. Lunchroom reports (except payroll records)
11. Daily attendance records
12. Bids

13. Gross profit analysis documentation

14. Bank statements and canceled checks

NOTE: If imaged statements are issued, the school should require the bank to include both the back and front of each check and deposit slip, and require that the images be of such quality and size that they are clearly legible. If deposit slips are not returned with the bank statement, validated duplicate deposit slips (or duplicate deposit slips with deposit receipt attached) must be retained.

15. Contracts, agreements, and other authorizations

16. Superseded individual school policies

Current Individual School Policy Manual

The manual should be continually updated and include all required policies.

Extension of Retention Period

If desired, local boards have the authority to extend the retention time beyond that period stated in the Manual.

Disposal of Records

Records not listed above may be destroyed at the end of a period designated by the local board. However, no records should be destroyed for at least one year or until the audit related to those records is completed and all applicable audit findings and recommendations are resolved, whichever is later.

The disposal process should be supervised by the principal to ensure complete destruction. A detailed list of all records destroyed and the related destruction date should be prepared, signed by all persons participating in the destruction of records, and submitted to the director of schools.

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Title 7, Cooperative and Noncooperative Activities

Cooperative Activities

Definition

A cooperative activity is one in which the school shares directly in the proceeds. Although they do not lend themselves to strict classification as student body activities, cooperative activities benefiting the student body are frequently undertaken by outside groups. The activity may involve salvage drives, carnivals, paid entertainment, food sales, etc., and is generally conducted after the normal school day. The activity may or may not involve the use of school facilities.

Agreement

Prior to the commencement of a cooperative activity, a written agreement concerning each party's responsibilities and the division of expenses and profits should be made between the outside group and the school in accordance with the board of education's policy.

Proceeds

The school shares directly in a percentage of the proceeds of a cooperative activity.

Accounting for Proceeds

If all proceeds from the event are collected by the school, the proceeds should be receipted by the school and a distribution made to the outside group based on the prior written agreement. If proceeds are collected by the outside group, a designated individual from the school should verify that the division of the collections was based on the written agreement and a prenumbered receipt should be issued for the school's share.

Noncooperative Activities

Definition

A noncooperative activity is one in which the school generally permits the use of school equipment or facilities without charge. However, there may be activities where the school charges a rental fee.

Agreement

Prior to the commencement of a noncooperative activity, a written agreement must be made setting forth the fee, if any, to be charged as well as other pertinent information in accordance with the board of education's policy.

Accounting for Rental Fees

Rental fees derived from noncooperative activities should be properly receipted and used in accordance with board policies.

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Title 8, Fundraising and Resale Activities

Resale Activities

For purposes of this Manual, resale activities encompass any activities involving the disbursement of money by the school for goods or services for resale. Resale activities may or may not be fundraisers as defined below. In some schools, resale activities such as bookstores, annuals, teacher lounge vending, etc., may not be intended or designed to generate a profit and therefore would not be considered fundraisers.

Fundraising Activities

For purposes of this Manual, a fundraiser is considered to be any activity conducted by the school which is intended or designed to generate a profit and provide supplemental revenue for the general fund or an individual club or class account. Fundraising activities could include vending operations, bookstores, pictures, concessions, carnivals, book sales, candy sales, magazine sales, walk-a-thons, car washes, bake sales, or similar activities. Fundraising activities do not include membership dues, fees, fines; ticket sales for sanctioned athletic events, activity fees and similar fees.

General Principle

Fundraising activities shall be for the purpose of supplementing money for school programs and not for replacing funds which are the responsibility of the local board of education. Fundraising activities shall in general contribute to the educational experience of the students and shall not conflict with the instructional program. When conducting resale and fundraising activities, school officials and employees should be aware of state laws regarding illegal conflicts of interest, kickbacks, and other such unlawful activities.

Required Authorization

Resale Activities

Resale activities not intended to generate a profit may be conducted at the discretion of the principal, unless otherwise provided by board policies.

Fundraising Activities

The school board shall adopt policies regarding fundraising activities. Those policies must address: (1) the participation of the general student population and the use of school facilities and property in fundraising efforts; (2) board limitations, if any, on the expenditure of money thus raised; (3) the participation of students and the use of school facilities in the fundraising efforts of the PTO, band and/or athletic boosters, and other school support groups during the school day; (4) disciplinary action, such as personal financial sanctions and/or formal reprimands, applicable to principals and/or sponsors of student organizations who knowingly authorize/allow unapproved fundraising activities [NOTE: individual school policies may address disciplinary action applicable to sponsors of student organizations]; and (5) other requirements or limitations that the board may choose to impose.



In the absence of local board policies, all fundraising activities are prohibited.

The principal must obtain written approval from the director of schools or designee for all fundraising activities that involve the participation of the general student population in the marketing process of the fundraising effort. All other fundraising activities must have written approval from the principal. Authorization should include the following information:

1. a list of the proposed fundraising activities;
2. purpose of the fundraising activity;
3. proposed uses of funds raised;
4. expected student involvement in fundraising activity (school-wide or individual class or club);

Records

Resale Activities

The school should execute a written agreement with the vendor for applicable resale activities, such as the yearbook.

For ongoing resale activities such as bookstores, concessions, vending, etc., monthly profit analysis reports must be completed to document collections, expenses, and any losses of money or product. These reports must be filed with the other school records. The school must maintain detailed records to support all amounts recorded on these forms. If the profit analysis report indicates a shortage, an explanation must be given for the shortage. If no reasonable explanation can be given, each subsequent day's activities must be recorded and evaluated until the reason for the shortage has been identified and corrected. For annuals, magazine sales, candy sales, and other similar activities that are not perpetual in nature, profit analysis reports may be completed at the conclusion of the activity.

Fundraiser Not Involving Resale Activities

If the fundraiser involves an outside vendor (such as school pictures), the school should obtain a written agreement. The agreement should set forth the division of profits that result from the activity, payment of sales tax, delivery date(s), package prices or other charges, scheduled date(s) of service, etc.

Accurate and systematic records of all cash collected should be maintained. Once collections are complete, the designated school authority should ensure that a proper division of profits is made in accordance with the written agreement and that the outside vendor's portion is remitted. If an outside vendor makes the collections, the school must independently verify total sales and total collections to ensure proper division of profits. The documentation used to verify the school's percentage must be internally generated, not received from an outside party (the vendor).

Fundraisers Conducted for Designated Purposes

To document that profits from fundraising activities conducted for designated purposes were expended for the purposes for which they were raised, a designated employee should prepare a fundraiser summary report. This report would include a summary of the expenditures showing how the profit was used. This form should be prepared and filed in the school office as close as possible to the time that the money is expended. The disposition of excess proceeds or a change in authorized purpose must be approved by the director of schools.

A fundraiser summary report is not required when a fundraiser is conducted without a designated purpose and when the profits are used for the general

operation of the school or the administrative activities of an individual club or class account. **However, school officials should be prepared to provide detailed financial information (in accordance with BOE policy and T.C.A. open-record statute) related to any school account when requested by an outside party.**

State Sales Tax

The State of Tennessee's "Retailers' Sales Tax Act" (Section 67-6-102, *TCA*) addresses payment of taxes applicable to purchases made for resale by schools. Section 67-6-102, Subsection (23), *TCA*, states:

(H) Notwithstanding the exemptions provided by sections 67-6-322 and 67-6-329 for sales to schools, "retail sale" and "sale at retail" subject to tax include any sale of tangible personal property or taxable services to a public or private school, grades kindergarten through twelve (K-12) or school support group, where such property or services are intended for resale by the school or school support group. Resales of such tangible personal property or taxable services by such school or school support group shall not be subject to tax. If for any reason a vendor does not collect and remit tax to the department on the sale of these items to the school or school support group, then the school or school support group shall be liable for use tax based on the purchase price of the items. This subsection(23)(H) does not apply to sales of school books and school lunches.

A school should not pay sales tax to an out-of-state vendor on items purchased for resale unless the vendor has supplied a Tennessee sales tax identification number. When sales tax is not paid to the vendor, the school is liable for use tax on the purchase price.

Resale items include **anything** purchased by the school and subsequently resold to students, teachers, clubs or other school organizations, the public, etc. (regardless of whether items are resold for profit or at cost). Sales tax should be paid on the purchase price of all resale items except for the exemptions noted above regarding books and school lunches. Also, as noted in Subsection 1, Section 67-6-102, *TCA*, sales tax does not apply to sales made during a "temporary sales period which occurs on a semi-annual or less frequent basis." In order for this exemption to apply, there can be no more than two resale activities per year by each school. If there are more than two resale functions, then the exemption requirements are not met and sales tax is payable on **all** resale transactions. As a rule, all schools have in excess of two resale activities per year.

Emphasized Internal Control Features

1. Someone who is not involved in the collections or recordkeeping for the fundraiser should prepare the profit analysis report.
2. For vending operations, when the vendor does all product work and the school only receives a percentage, a counter controlled by school personnel should be placed on the machines. If a counter is not used, cash must be counted by school personnel (preferably two persons should be present) when removed from machines in order to establish the amount of collections to be used in calculating the division of profits per the written agreement. Other procedures may be employed which accomplish the independent verification.
3. A responsible school employee should verify the receipt of all incoming items for resale by comparing the items received to the invoiced amounts and descriptions, noting any discrepancies on the invoice, and signing the invoice.
4. In instances where schools have large quantities of items for resale or maintain bookstores or school stores, a physical count of the inventory should be taken at the end of each school year. Such an inventory should consist of a listing indicating the merchandise on hand, the number of units on hand, unit cost and total cost of all units on hand and signature(s) of person(s) responsible for the physical count.

Section 4: Administration of Internal School Funds

Title 9, Donations & Other Miscellaneous Revenues/Receipts

Donations

Legally restricted donations or allocations to individual schools must be used in accordance with the stipulations placed on their use by the contributor. Such donations and allocations include those received from local businesses, the local board of education, individual donors, or authorized transfers made from one restricted fund account to another restricted fund account or to the general fund. Any stipulations governing the use of donations or allocations should be documented in writing by the donors (e.g., donations for the purchase of computers, scholarship programs, etc.).

The school must prepare a form prior to the end of each school year for each source of legally restricted donations or allocations. This donation/allocation summary report must include: amount donated or allocated; source and purpose; date received; and detailed list of all related disbursements.

Returned Check Fees

Any fees charged for returned checks by the school to a customer should be recorded as revenue in the fund or account in which the bank fee was recorded. If the bank charges fees which the school does not try to recoup, the fees should be recorded as an expenditure in the fund or account in which the returned check was originally recorded. If the school charges a fee in excess of the bank fee, such excess fees should be recorded in the general fund.

Interest Earned on Bank and Investment Accounts

Interest earned on bank and investment accounts is considered the property of the respective accounts as follows:

Source of Account Deposits

- a.** General Fund
- b.** Restricted Fund Accounts
- c.** Food Service Fund

Considered Revenue To:

- a.** General Fund
- b.** General Fund or Restricted Fund
Accounts as set forth in the
school's policies
- c.** Food Service Fund

When interest is added to a bank or investment account by the depository and is not physically received by the school, the bookkeeper should make the appropriate entry in the general journal.

Teachers' Materials and Supplies Funds

BEP money for teachers' instructional supplies should be allocated based on the information provided annually by the Tennessee Department of Education. These allocations should be recorded in a restricted fund account entitled "Teachers Materials and Supplies Account". Sub-accounts must be maintained to ensure proper allocation to individual teachers and to "school pools". Expenditures from these accounts must comply with current purchasing or reimbursement practices of the school.

Grants

The board of education must establish policies regarding direct application for grants by individual schools. Upon board authorization, individual principals may apply for grants. A separate restricted fund account must be established when grants are received directly by internal school funds. All related cash receipts and disbursements must be recorded in this account. In addition, a grant activity schedule as described in the accounting and reporting section of this manual must be prepared.

Student Fees / Fee Waiver

TCA 49-2-110(c) prohibits the imposition of fees as a condition of attending school or receiving instruction. Therefore, fees must not be required of any Tennessee student as a requisite for school attendance, enrollment in any class or course, or for using school equipment. The board of education will pay all fees for students who have on file with the board an approved waiver application. Some boards of education provide these fees through an annual allocation.

When fees are paid by the board on a reimbursement basis, the bookkeeper should record all fees collected in the appropriate account (i.e., class or workbook, field trip, etc.). Periodically, the bookkeeper should submit to the board a comprehensive list of waived fees, including the student name, amount of fee, and purpose of fee. Payment from the board to the school for waived fees should be recorded in the same fee revenue accounts that would have been credited if the fees had been paid by the students.

Extended School Program (ESP)

When ESP money is collected at the individual schools, there are various methods of collecting and recording the money. One method is to receipt and deposit the money in a school bank account, just as other internal school money. The principal then reports these collections and pays ESP money to the board of education by school check. Since the school is acting only as a collection agency for the board of education, this activity will not affect any revenue or expenditure

accounts. The bookkeeper should record these transactions in the general journal by making the appropriate debits and credits in the cash and liability accounts. These funds should be audited by the activity fund auditor for internal control and compliance requirements.

Another method is for the school to issue board of education receipts and deposit the money directly into a special board of education account set up for this purpose. The school is still acting as a collection agent for the board of education; however, with this method, the school would not record anything in the activity fund records. A drawback to this method is that the auditor for the board of education would have additional work in testing the internal control structure of each school who collects money for the board of education in this manner.

Student Deposits and Fines Collected for the Board of Education

Occasionally, boards of education may require school personnel to collect money on behalf of the board of education that must be accounted for in the school's accounting records. Reasonable fines may be assessed for lost or damaged school property, such as textbooks, library books, equipment, etc., or for other purposes. Such money collected for the board by the school must be remitted to the board by check, and a receipt must be obtained from the board of education.

Section 4: Administration of Internal School Funds

Title 10, Loans and Accommodations

Student activity and other internal school funds must not be used for any purpose which represents an accommodation, loan, or credit to anyone. Personal checks may be taken for payment of goods, services, and other school charges, but must not be cashed for the purpose of making change or as an accommodation to individuals, including school personnel. Checks should be accepted for the exact amount of purchase only. Public property must not be taken from the school premises for personal benefit. Local board employees or other individuals must not make purchases for personal benefit through a school in order to take advantage of the school's tax exempt status or other purchasing privileges.

Section 4: Administration of Internal School Funds

Title 11, School Activity Budgets

The budget is an estimated plan of anticipated revenues and proposed expenditures for a fiscal year. (Tennessee public schools have a fiscal year beginning July 1 and ending June 30.) For the general fund, the budget should present the beginning general fund balance, estimated revenues, proposed expenditures, and the estimated ending general fund balance. For each restricted fund, the budget should present separately the beginning account balance, estimated revenues, proposed expenditures, and the estimated ending account balance.

As soon as possible after school begins, each activity group, in consultation with the activity sponsor, should develop and adopt a student activity account budget that will be used during the current fiscal year. Each sponsor should submit a copy to the principal for use in preparing a comprehensive school budget that is submitted to the board through the director of school's office. A copy of the school budget should be retained on file at the school for future reference and audit purposes.